

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

BAY CITY HOUSING COMMISSION

Financial Statements

September 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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## MANAGEMENT DISCUSSION & ANALYSIS

Bay City Housing Commission fiscal audit for the year ending September 30, 2004

The Government Accounting Standards Board (GASB) Statement #34 became applicable to the Bay City Housing Commission with its fiscal year beginning October 1, 2003. The purpose of this Statement is to provide more understandable and useful financial reports to a wider range of users than did the previous model of reporting. The Statement applies to the audited financial statements of all state and local governmental entities, including Public Housing Agencies (PHA) such as the Bay City Housing Commission.

A new key requirement of GASB 34 is the Management Discussion and Analysis (MD&A). The MD&A is intended to provide the users of the financial statements with an objective, easily readable analysis of the PHA's financial activities based on currently known facts, decisions or conditions, with a discussion of the positive and negative aspects of comparisons with the prior year. Paragraph 11, subparagraphs (a) through (h) of GASB34, detailing the topics of the MD&A, is discussed herein.

(a) *"A brief discussion of the basic financial statements, including the relationship of the statements to each other, and the significant differences in the information they provide."*

The Bay City Housing Commission utilizes the Enterprise model of reporting under GAAP (Generally Accepted Accounting Principals), aggregating its major programs into combined financial statements. Major programs are grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Combined financial statements are presented first, with detailed combining program data (financial data schedule) presented in the Supplemental Data section of the audit. The Bay City Housing Commission's major programs are the Conventional Low-Rent Public Housing, the Public Housing Capital Fund, and the Section 8 New Construction programs.

Combined Balance Sheet - details the current (cash and cash-equivalent) and non-current (fixed) assets as compared to current liabilities (payables) and equity (contributed capital and retained earnings) as of the year-end (9/30/2004), or the total "worth" of the enterprise.

Combined Statement of Revenues/Expenses - the "income statement", details the revenues received through operations, grants, interest or other sources during the year less expenses for wages, benefits, utilities, maintenance and depreciation. The difference between the two is the net profit (or loss) for the year.

Combined Statement of Cash Flows - details the flow and uses of cash from operations and capital/financing activities and adjusts the year's beginning cash balance by the net cash flow to arrive at the end of year balance, which is reported on the Combined Balance Sheet. The statement further reconciles the year end operating income (loss) to the net cash provided by operating activities.

(b) "Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. At a minimum, governments should present the information needed to support their analysis of financial positions and results of operations required in (c), below, including these elements:

- Total assets, distinguishing between capital and other assets,
- Total liabilities, distinguishing between long-term liabilities and other liabilities,
- Total net assets, distinguishing among amounts invested in capital assets net of related debt, restricted amounts and unrestricted amounts,
- Program revenue, by major source,
- General revenue by major source,
- Total revenues,
- Program expenses, at a minimum by functions,
- Total expenses,
- Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers,
- Contributions,
- Special and extraordinary items,
- Transfers,
- Changes in net assets,
- Ending net assets

TABLE 1  
NET ASSETS

	9/30/2004	9/30/2003
Current Assets	\$	\$
	1,281,879	1,486,926
Restricted Assets	\$	\$
	90,000	90,000
Capital Assets, net of depreciation	<u>\$13,015,133</u>	<u>\$12,566,810</u>
TOTAL ASSETS	\$14,387,012	\$14,143,736
Current Liabilities	\$207,480	\$219,262
Current Liabilities payable from current restricted assets	\$124,690	\$124,993
Long-term Liabilities	<u>\$</u>	<u>\$</u>
	0	0
TOTAL LIABILITIES	\$332,170	\$344,255
NET ASSETS		
Invested in capital assets net of related debt	\$13,015,133	\$12,566,810
Restricted	\$	\$
	90,000	90,000
Unrestricted	<u>\$</u>	<u>\$</u>
	<u>949,709</u>	<u>1,142,671</u>
TOTAL NET ASSETS	\$14,054,842	\$13,799,481

TABLE 2  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	9/30/2004	9/30/2003
<u>REVENUES/CAPITAL CONTRIBUTIONS:</u>		
OPERATING REVENUE		
Rent & Other Tenant Charges	\$ 1,565,122	\$ 1,536,858
NONOPERATING REVENUE		
Interest Earnings	\$ 9,779	\$ 13,976
Federal Operating Grants	\$ 1,900,849	\$ 1,981,388
Federal Capital Grants	\$ 1,111,938	\$ 787,205
Other Revenue	\$ 106,915	\$ 105,623
CAPTIAL CONTRIBUTIONS	\$ 0	\$ 0
TOTAL REVENUES/CAPITAL CONTRIBUTIONS:	\$ 4,694,603	\$ 4,425,050
<u>EXPENSES:</u>		
OPERATING EXPENSES		
Administration	\$ 612,318	\$ 554,655
Tenant Services	\$ 224,951	\$ 227,163
Utilities	\$ 473,926	\$ 474,788
Ordinary Maintenance and Operations	\$ 1,411,110	\$ 1,453,028
Protective Services	\$ 354	\$ 312
General Administrative Expenses	\$ 570,179	\$ 545,589
OTHER EXPENSES		
Casualty Losses	\$ 0	\$ 741
Depreciation	\$ 1,152,466	\$ 1,141,851
Interest Expense	\$ 0	\$ 6,250
TOTAL EXPENSES:	\$ 4,445,304	\$ 4,404,377
Increase (Decrease) in Net Assets	\$ 249,299	\$ 20,673
Prior Period Adjustment	\$ 6,062	\$ 0
Adjusted Change in Net Assets	\$ 255,361	\$ 20,673

- (c) *"An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply state the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affect operating results for the year should be discussed."*

Revenues - Net revenue from all sources increased by \$269,553 (+6%) over the prior year. Interest income was down by \$4,197 (a decrease of 30%), reflecting the continued depressed condition of the market environment for conservative investment instruments that the Housing Commission is allowed to invest in (CD's, Treasury Bills and Notes). However, it is significant to note that HUD Operating Grants were \$80,539 less than last year (a decrease of 4%), attributable to HUD's modification of the Performance Funding System (PFS), the method by which PHA's calculate their Operating Fund eligibility. The modification eliminated the year-end adjustment for actual utility consumption that is over (or under) the PFS calculated amount and which would have resulted in an additional \$38,730 in revenue. Additionally, federal appropriations for the audit year were only sufficient to fund 94.7% of PFS eligibility, resulting in a further reduction of \$54,516 in planned revenue. Capital Grants increases of \$324,733 (+42%) offset the reduction in the Operating Grants, reflecting expenditures made and funds requisitioned for approved and contracted activities under the Capital Grant Program (CFP).

Expenses - Total expenses were held to an increase of just \$40,927 (+1%). Significant variances by categories were in Administration where the unplanned replacement of computer hardware was necessitated, and in Ordinary Maintenance & Operations where materials and contract costs were less than planned as the result of a conscious decision by management to defray certain planned expenditures into the next budget year and where employee benefits for health insurance premiums were higher than anticipated. Finally, General Administrative Expense increases were attributable to Liability/Property insurance premium increases and health insurance premium increases for retirees covered by the Housing Commission, such increases partially offset by a reduction in PILOT payments to the City of Bay City allowed for by an amendment to PA 18, the state enabling legislation for Public Housing Agencies in the State of Michigan.

- (d) *"An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future uses."*

The Bay City Housing Commission does not have multiple funds. All programs as discussed herein are contained within one General Fund with subsidiary ledgers maintained for separate program activities.

- (e) *"An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity."*

This analysis is not required under the Enterprise model where the primary function of the entity is a business-type activity.

(f) *"A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services."*

#### CAPITAL ASSETS

##### CAPITAL ASSETS AT YEAR-END

	9/30/2004	9/30/2003
Land	\$1,798,466	\$1,798,466
Buildings	\$11,224,223	\$11,224,223
Furniture and Equipment	\$2,559,177	\$2,525,786
Leasehold Improvements	\$12,645,501	\$11,229,303
Construction in Progress	\$1,297,725	\$1,146,525
Accumulated Depreciation	<u>(\$16,509,959)</u>	<u>(\$15,357,493)</u>
TOTALS	\$13,015,133	\$12,566,810

At September 30, 2004 the Bay City Housing Commission had \$13,015,133 invested in a broad range of capital assets, including land, buildings and furniture and equipment, an increase of \$448,323 (4%) from the prior year. Leasehold improvements increased by \$1,416,198 (13%) and Construction in Progress increased by \$151,200 (13%) from the prior year, reflective of the Housing Commission's continued commitment to maintain, enhance and improve its facilities, securing their viability for continued use into the future.

Capital Improvements made to the Public Housing inventory are accomplished through grant funding provided by HUD under the Capital Fund Program (CFP). The CFP and its predecessor programs have been separately authorized and funded by Congress since the early '90s, providing a stable formula-derived annual allocation to PHA's specifically for these purposes. Capital Improvements made to the Section 8 New Construction inventory (Maplewood Manor) are self-funded by the Housing Commission utilizing surplus Operating Income.

No debt has been issued for these improvements.

#### DEBT

The only previous outstanding debt obligation of the Bay City Housing Commission (payments on the City of Bay City's General Obligation Bond issued for the construction of Maplewood Manor) was discharged in the previous year (2003). No current debt, either long or short-term, encumbers the Housing Commission.

However, the Housing Commission is actively pursuing participation in a Michigan State Housing Development Authority (MSHDA) sponsored bond issue for capital improvements in its Public Housing inventory. The bond issue would raise funds to allow the Housing Commission to accelerate planned improvements over those that could be accomplished with the current stream of funding and would be repaid through the use of future annual CFP funds.

(g) *"A discussion by governments that use the modified approach to report some or all of their infrastructure assets..."*



Not applicable to business-type activities under the Enterprise model.

- (g) *"A description of currently known facts, decisions or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets)."*

#### PUBLIC HOUSING

The Bay City Housing Commission is primarily dependent on HUD for the funding of operational expenses not covered by operational revenue which is limited by federal statute (maximum rent charged can be no more than 30% of a family's adjusted household income). It is therefore more affected by the federal budget than by local economic conditions. Budgets for 2005 have been approved by HUD and no major changes are expected. However, 2006 budget deliberations by Congress are anticipated to result in significant reductions in funding as HUD institutes new Operating Fund criteria, institutes a shift to an "Asset Management" model of operations, and as Congress and the Administration contend with other national priorities. A shift in the timing of the disbursement of Operating Fund allocations from a fiscal year to a calendar year basis is also anticipated in 2006, the results of which remain unclear at this time. If implemented, this will occur at the beginning of the second quarter of the fiscal year that begins on October 1, 2005.

The Capital Fund, also funded through the federal budget process, has been historically a relatively stable program. However, it has also been experiencing pressures resulting from the national priorities debate and is expected to receive significant cuts as well in the 2006 federal budget. This may have deleterious effects on the Housing Commission's planned participation in the MSHDA bond program. The Housing Commission has delayed obligation of its 2004 CFP funds which have been planned to be used for the initial debt service on the bond repayment schedule and has not yet received notification of its 2005 funding allocation. 2006 CFP funds are anticipated to receive a 10% cut.

#### SECTION 8 NEW CONSTRUCTION (Maplewood Manor)

Funding provided for this multi-family program of HUD is in the form of a Housing Assistance Payment Contract (HAP) which guarantees a certain 'contract rent', HUD paying the owner the difference between the income-based rents it receives from tenants and that contract rent. The initial HAP Contract with HUD for Maplewood Manor was for a period of 25 years with contract rents set high enough to cover both initial operations and debt service on the municipal bond that was issued to fund its construction. At the end of the initial HAP Contract in 2004 the Housing Commission applied for and received a 5-year renewal of the HAP. Annually, the Housing Commission can apply for either a budget-based rent increase or an increase based on a HUD-published Operating Cost Adjustment Factor (OCAF).

The HAP Contract is designed to allow owners of these multi-family properties to fund their own Replacement Reserves for needed improvements and betterments required over the life of the facility and, such being the case, these developments are not otherwise eligible to participate in the Capital Fund Program available to Public Housing properties. The Housing Commission has been implementing planned improvements utilizing this source and will continue to do so.

#### CONTACTING THE HOUSING COMMISSION'S MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Housing Commission's finances and to show the Housing Commission's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Douglas A. Rise, Executive Director, at the Bay City Housing Commission, 1200 N. Madison Avenue, Bay City, Michigan 48708, telephone number (989) 892-9581.

***John C. DiPiero, P.C.***

Certified Public Accountant

P. O. Box 378  
Hemlock, Michigan 48626  
Tel / Fax (989) 642-2092

### **Independent Auditor's Report**

I have audited the financial statements listed in the Table of Contents of the BAY CITY Housing Commission as of and for the year ended September 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of October 1, 2002. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BAY CITY Housing Commission as of September 30, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Required Supplemental Information**

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### **Combining Financial Statements**

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

March 15, 2005

# Bay City Housing Commission

30-Sep-04

MI024

Combining Balance Sheet		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #					
	<b>ASSETS:</b>				
	<b>CURRENT ASSETS:</b>				
	Cash:				
111	Cash - unrestricted	1,102,864	258,420	-	1,361,284
112	Cash - restricted - modernization and development	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits	70,000	20,000		90,000
100	Total cash	1,172,864	278,420	-	1,451,284
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				-
122	Accounts receivable - HUD other projects	-	-	7,739	7,739
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous	11,319	10,187		21,506
126	Accounts receivable- tenants - dwelling rents	29,990	121		30,111
126.1	Allowance for doubtful accounts - dwelling rents	(7,236)			(7,236)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- current				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable				-
120	Total receivables, net of allowances for doubtful accounts	34,073	10,308	7,739	52,120
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	75,625	11,039		86,664
143	Inventories	140,275	15,035		155,310
143.1	Allowance for obsolete inventories	(2,719)	(272)		(2,991)
144	Interprogram - due from	7,739	-	-	7,739
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	1,427,857	314,530	7,739	1,750,126
	<b>NONCURRENT ASSETS:</b>				
	Fixed assets:				
161	Land	1,539,701	258,765		1,798,466
162	Buildings	7,533,845	3,690,378		11,224,223
163	Furniture, equipment & machinery - dwellings	533,618	649,672	26,506	1,209,796
164	Furniture, equipment & machinery - administrative	1,222,066	123,475	3,840	1,349,381
165	Leasehold improvements	10,127,675	2,517,826	1,297,725	13,943,226
166	Accumulated depreciation	(12,390,004)	(4,119,955)	-	(16,509,959)
160	Total fixed assets, net of accumulated depreciation	8,566,901	3,120,161	1,328,071	13,015,133
171	Notes and mortgages receivable - non-current				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	8,566,901	3,120,161	1,328,071	13,015,133

# Bay City Housing Commission

30-Sep-04

MI024

Combining Income Statement		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	<b>REVENUE:</b>	-	-		
703	Net tenant rental revenue	1,107,834	402,833		1,510,667
704	Tenant revenue - other	48,686	5,769		54,455
705	Total tenant revenue	1,156,520	408,602	-	1,565,122
706	HUD PHA grants	974,096	716,234	1,322,457	3,012,787
708	Other government grants				-
711	Investment income - unrestricted	6,273	3,506	-	9,779
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	17,925	83,663	-	101,588
716	Gain or loss on the sale of fixed assets	5,327			5,327
720	Investment income - restrictec				-
700	<b>TOTAL REVENUE</b>	2,160,141	1,212,005	1,322,457	4,694,603
	<b>EXPENSES:</b>				
	Administrative				
911	Administrative salaries	212,605	73,990	61,051	347,646
912	Auditing fees	2,886	814		3,700
913	Outside management fees				-
914	Compensated absences	1,102	310		1,412
915	Employee benefit contributions- administrative	84,404	29,274	-	113,678
916	Other operating- administrative	76,317	19,433	50,132	145,882
	Tenant services				
921	Tenant services - salaries	54,821	28,640		83,461
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services	20,283	10,908		31,191
924	Tenant services - other	9,255	1,708	99,336	110,299
	Utilities				
931	Water	94,218	33,372		127,590
932	Electricity	109,509	63,928		173,437
933	Gas	94,778	67,873		162,651
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	10,125	123		10,248
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	571,051	154,287		725,338
942	Ordinary maintenance and operations - materials & c	100,502	20,958	-	121,460
943	Ordinary maintenance and operations - contract cost	177,881	71,452	-	249,333
945	Employee benefit contributions- ordinary maintenanc	255,667	59,312		314,979
	Protective services				

BAY CITY HOUSING COMMISSION  
Statement of Net Assets  
September 30, 2004

ASSETS

C-3017

CURRENT ASSETS

Cash & Cash Equivalents	\$ 1,451,284
Accounts Receivable (Net)	22,875
Accounts Receivable- Other	29,245
Prepaid Expenses & Inventory (Net)	238,983
Inter Program due from	<u>7,739</u>

Total Current Assets	\$ 1,750,126
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NON CURRENT ASSETS

Land	\$ 1,798,466
Buildings	11,224,223
Furniture, Equipment- Dwellings	1,209,796
Furniture, Equipment- Administrative	1,349,381
Leasehold Improvements	13,943,226
Accumulated Depreciation	<u>(16,509,959)</u>

Total Non Current Assets	<u>13,015,133</u>
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TOTAL ASSETS

\$ 14,765,259

BAY CITY HOUSING COMMISSION  
Statement of Net Assets  
September 30, 2004

**LIABILITIES**

**C-3017**

**CURRENT LIABILITIES**

Accounts Payable	\$ 458,882
Accrued Liabilities	27,466
Accounts Payable- HUD	241
Accounts Payable- Other Government	80,951
Compensated Absences	8,766
Tenants Security Deposit	124,690
Deferred Revenue	1,682
Inter-Program due to	<u>7,739</u>

Total Current Liabilities \$ 710,417

**Net Assets:**

Investment in Fixed Assets	
net of Related Debt	\$ 13,015,133
Retained Earnings	<u>1,039,709</u>

Total Net Assets 14,054,842

TOTAL LIABILITIES & NET ASSETS \$ 14,765,259

The Accompanying Footnotes are an Integral Part of the Financial Statements.



BAY CITY HOUSING COMMISSION  
Combined Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended September 30, 2004

	<u>Business Type Activities</u>
<u>OPERATING REVENUE</u>	
Tenant Rental Revenue	\$ 1,510,667
Tenant Revenue- Other	54,455
HUD Grants	3,012,787
Interest Income	9,779
Other Income	<u>101,588</u>
 <u>Total Operating Revenue</u>	 \$ 4,689,276
 <u>OPERATING EXPENSES</u>	
Administrative	\$ 612,318
Tenant Services	224,951
Utility Expenses	473,926
Ordinary Maintenance	1,411,110
Protective Services	354
General Expenses	<u>270,790</u>
 <u>Total Operating Expenses</u>	 <u>2,993,449</u>
 <u>Operating Income (Loss)</u>	 \$ 1,695,827
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Gain on the Sale of Fixed Assets	\$ 5,327
Depreciation Expenses	<u>(1,152,466)</u>
 <u>Total Nonoperating (Expenses)</u>	 <u>(1,147,139)</u>
 <u>Change in Net Assets</u>	 \$ 548,688
 Total Net Assets- Beginning	 <u>13,506,154</u>
 Total Net Assets- Ending	 <u>\$ 14,054,842</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

BAY CITY HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended September 30, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,560,681
Payments to Suppliers	(1,811,803)
Payments to Employees	(1,156,445)
HUD Grants	3,012,787
Other Receipts (Payments)	<u>116,694</u>
Net Cash Provided (Used) by Operating Activities	\$ 1,721,914

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(1,600,789)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 121,125
Cash Balance- Beginning of Year	<u>1,330,159</u>
Cash Balance- End of Year	\$ <u>1,451,284</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 548,688
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,152,466
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(4,473)
Prepaid Expenses	(21,220)
Interfund Due From	(3,507)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	54,286
Accrued Liabilities	(6,374)
Account Payable- HUD	241
Accounts Payable-Other Governments	(8,477)
Accrued Compensated Absences	8,766
Security Deposits	(303)
Deferred Revenue	(1,686)
Interfund Due To	<u>3,507</u>
Net Cash Provided by Operating Activities	\$ <u>1,721,914</u>

The Accompanying Notes are an Integral part of the Financial Statements

BAY CITY HOUSING COMMISSION  
Notes to Financial Statements  
September 30, 2004

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

Bay City Housing Commission, Bay City, Michigan, (Commission) was created by ordinance of the city of Bay City. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 24-2,3,4,5, 6, & 7 Low rent program	562 units
MI 28-8023007 New Construction	161 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Notes to Financial Statements- continued

**Budgetary data-**

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

**Assets, Liabilities, and Net Assets-**

**Deposits & Investments**

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

**Cash Equivalents**

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

**Inventory**

Inventory is valued at the lower of cost (First in, First out) or market. Inventory consist of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

**Due To and Due From Other Funds**

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

**Fixed Assets**

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	15 years
Equipment	3-10 years

Notes to Financial Statements- continued

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 440,421
Petty Cash	150
Savings Accounts	90,000
Cash Equivalents, below	<u>920,713</u>
Financial Statement Total	\$ <u>1,451,284</u>

Investments:

Certificates of Deposit	\$ 200,000
Savings Accounts	720,713
Cash Equivalents, reclassified above	<u>(920,713)</u>
Financial Statement Total	\$ <u>0</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 440,421	\$	\$	\$ 440,421	\$ 440,421
Petty Cash	150			150	150
Money market	810,713			810,713	810,713
C/D's	<u>200,000</u>			<u>200,000</u>	<u>200,000</u>
Total Cash	\$ <u>1,451,284</u>	\$	\$	\$ <u>1,451,284</u>	\$ <u>1,451,284</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Notes to Financial Statements- continue

Note 3: Accounts Receivable

Tenants accounts receivable consists of the following:

Accounts Receivable- Tenants	\$ 30,111
Allowance for Doubtful Accounts	<u>(7,236)</u>
Net Accounts Receivable-tenants	<u>\$ 22,875</u>

Accounts Receivable- Other

Accounts Receivable- HUD	7,739
Accounts Receivable- Miscellaneous	<u>21,506</u>
Financial Statement Total	<u>\$ 29,245</u>

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ 86,664
Inventories	155,310
Allowance for Obsolescence	<u>(2,991)</u>
Financial Statement Total	<u>\$ 238,983</u>

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 1,798,466	\$	\$	\$ 1,798,466
Buildings	11,224,223			11,224,223
Furniture & Equipment-Dwellings	1,209,796			1,209,796
Furniture & Equipment-Admin	1,315,990	33,391		1,349,381
Leasehold Improvements	<u>12,375,828</u>	<u>1,567,398</u>		<u>13,943,226</u>
	\$27,924,303	\$1,600,789	\$	\$29,525,092
Less Accumulated Depreciation	<u>15,357,493</u>	<u>1,152,466</u>		<u>16,509,959</u>
	<u>\$12,566,810</u>	<u>\$ 448,323</u>	<u>\$</u>	<u>\$13,015,133</u>

Notes to Financial Statements, continued

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ <u>27,466</u>
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Note 7: Accounts Payable- Other Governments

Accounts Payable other governments consists of the following:

Accounts Payable- Bay City	\$ <u>80,951</u>
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Note 8: Retirement.

The Commission is enrolled in a retirement and a deferred compensation plan, under code section 457 and section 401 of the Internal Revenue Code. The plan provides for both employee and employer contributions, and offers several alternative plans to participate in; the eligibility rules and plan assets are available under a separate report provided by the Retirement Trust. In addition to the above, the Commission has a defined benefit plan which has been frozen to current employee participation only, and not available to future employee participation.

The statistical data for that plan is as follows:

**GASB 25 and 27 Information**

The following information has been prepared to provide the information necessary to comply with GASB Statements N. 25 & 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

**GASB 25 Information (as of 12/31/2003)**

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ 2,551,480
Terminated employees (vested former members) not yet receiving benefits	42,156
Non-vested terminated employees (pending refunds of accumulated member contributions)	0

Current employees-

Accumulated employee contributions including allocated investment income	70,836
Employer financed	<u>2,236,933</u>

Total Actuarial Accrued Liability	\$ 4,901,405
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Net assets available for benefits at actuarial value	<u>3,890,030</u>
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(Market Value is \$ 3,552,017)

Underfunded (Overfunded) actuarial accrued liability	\$ 1,011,375
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Notes to Financial Statements- continued

**GASB 27 Information (as of 12/31/2003)**

Fiscal year beginning	October 1, 2005
Annual Required Contribution (ARC)	\$ 141,828
Amortization Factor Used - Underfunded Liabilities (26 years)	0.058519

**Note 9: Risk Management**

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ Replacement
General Liability	2,000,000
Automobile Liability	500,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

**Note 10: Reclassifications.**

Certain prior years' balances have been reclassified to conform to the current year's presentation.

**Note 11: Combining Financial Data Schedules.**

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

BAY CITY HOUSING COMMISSION  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3017 Operating Subsidies	\$ <u>974,096</u>
* <u>CFDA 14.182 Housing Assistance Programs</u>	
C-3017 Section 8 New Construction	\$ <u>737,234</u>
* <u>CFDA 14.872 Capital Projects Grants</u>	
C-3017 Capital Projects Funds	\$ <u>1,322,457</u>
	\$ <u>3,012,787</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ Replacement
General Liability	2,000,000
Automobile Liability	500,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

\*Connotes Major Program Category

BAY CITY HOUSING COMMISSION  
Status of Prior Audit Findings  
September 30, 2004

The prior audit of the Bay City Housing Commission for the period ended September 30, 2003, contained two audit findings; the corrective action is as follows:

- 1) Tenant Accounting Discrepancies- Third party verification remains a concern, see current year findings.
- 2) Investments not fully secured- Adequate collateralization exists; this finding is closed.

BAY CITY HOUSING COMMISSION  
Report on Compliance Applicable with Requirements to  
Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133  
September 30, 2004

Compliance

I have audited the compliance of Bay City Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2004. Bay City Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bay City Housing Commission's management. My responsibility is to express an opinion on Bay City Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay City Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Bay City Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

Low Rent Public Housing:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Tenant Accounting Deficiencies	03-1	Eligibility
Maintenance Department Discrepancies	04-1	Activities allowed or unallowed; Equipment and real property management

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

#### Internal Control over Compliance

The management of Bay City Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Bay City Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

March 15, 2005

BAY CITY HOUSING COMMISSION  
Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
Government Auditing Standards  
September 30, 2004

I have audited the financial statements of Bay City Housing Commission, Bay City, Michigan, as of and for the year ended September 30, 2004, and have issued my report thereon dated March 15, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bay City Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Bay City Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no instances which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

March 15, 2005

BAY CITY HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
September 30, 2004

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Section 8 New Construction	X	
Capital Projects Funds	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
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Reportable condition(s) noted	_____ Yes	_____ <u>X</u> No
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Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
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Reportable condition(s) noted	_____ <u>X</u> Yes	_____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	None	03-1, 04-1
Section 8 New Construction	Yes	None	N/A
Capital Fund Project	Yes	None	N/A

BAY CITY HOUSING COMMISSION  
Schedule of Findings & Questioned Cost  
September 30, 2004

The following findings of the Bay City Housing Commission, for the year ended September 30, 2004, was discussed with the Executive Director, Mr. Doug Rise, in an exit interview conducted March 15, 2005.

Finding 03-1:

Tenant Accounting Discrepancies.

Out of 22 files tested the following discrepancies were discovered:

- 3 files lacked sufficient third party income verification
- 4 files did not have citizenship forms completed

The third party income verification above is a repeat finding.

Recommendation

HUD requires the above verifications and documentation in tenant files; non compliance with the above requirements could result in miscalculated rents.

Citizenship forms are required and should be completed for all household members.

I would recommend the Commission review the recertification process and implement a monitoring program to insure compliance with HUD requirements.

Reply

Specific deficiencies noted with seven (7) tenant files are being reviewed and corrected as follows:

Citizenship Declarations noted as lacking in 2 of 4 files were located in the files of the tenants who had transferred from one development of the Commission to another, the declarations not having been transferred into the tenant file at the new location. Additionally, one (1) of these files was also missing the declaration of a new household member added through marriage, which has since been requested and received. Two (2) files lacked declarations completely, one (1) of which has been requested and received, the other to be obtained at the tenant's April recertification.

Third-party income verifications noted as lacking in one (1) of three (3) files concerned a social security benefit that was not reported to the Commission through the TASS system. Lacking other documentation, the previous year's benefit amount multiplied by the published COLA factor was used. The tenant has since deceased. In another file, a tenant's previous year's verified savings account amount (\$122) that was closed by the tenant (and verified as closed by the bank) was not removed from the 50058 form.



The asset was removed and rent recalculated, resulting in no impact on the rental amount. In the last file, a verified wage income amount was inadvertently included as both income and as an asset on the 50058 form. Tenant has since vacated the dwelling unit but rent for the residency period since the re-certification will be recalculated and any credit owing will be remitted to the former tenant.

The Housing Commission will develop an Annual Re-Certification checklist to be used by staff to confirm all required information to be reviewed and verified during the re-certification process. Senior staff will, on a periodic basis, randomly review re-certifications to insure completeness of files and proper calculations of rent resulting therefrom.

Finding 04-1:

Maintenance Department Discrepancies

The maintenance supervisor was the target of an investigation concerning possible irregularities; certain practices are questionable.

The maintenance supervisor is paid as a salary position, however, also used compensatory time and was paid overtime.

Recommendation

A complaint was filed and investigated alleging that the maintenance supervisor had taken Commission assets; the investigation found numerous Commission assets at his residence, however, criminal intent was lacking, and the items were returned to the Commission.

Governmental and Non Profit organizations are transparent; their actions are scrutinized and are a matter of public record, the mere appearance of impropriety can lead to accusations and suspicions. All employees should recognize this fact, but especially someone in management; his careless actions not only reflect poorly on the organization as a whole, but sets a bad example for the non management employees. To correct the problem, a directive was issued in December which stated the obvious, that using Commission assets for personal reasons is unacceptable and further abuse could lead to serious disciplinary measures. Since that directive, a minor infraction of the new directive occurred involving the maintenance supervisor.

The maintenance supervisor is a salaried position; the federal Fair Labor Standards Act (FLAS), and the Michigan wage and hour division clearly state the conditions which constitute salary and hourly status. A salary position is not entitled to either overtime or compensatory time as the employee is exempt from these provisions, however, if the position is not truly a salary position, then the employee is not only entitled to both, but overtime is mandatory. Compensatory time has certain rules which must be followed in order to be in compliance with the FLAS; a written document must be signed by the employee and management stating how the time is earned, used, etc. In addition, the time earned must be approved by management before the hours are credited; management is obligated to track all time earned and used and provide a copy of unused time to the employee. No such record of time earned, used, or balance remaining exists; there is no written document concerning compensatory time. FLAS also addresses the "On Call" status of employees; if an employee has a radio and or a vehicle and is at home in reach by telephone, they are not on call for compensation purposes, they are only on call if they are called to respond. As a salaried employee, the time would not be compensated even if called after hours; whereas, an hourly employee would be compensated for such a call. The point to this discussion is that the maintenance supervisors position needs to be defined under FLAS. The current status of the maintenance supervisor is a salaried position with some of the benefits of an hourly employee- paid overtime, and used compensatory time.

In regards to the above situation, I recommend the Commission enforce the rules established in the directive. Management should be held to the highest standard, if individuals in trusted positions violate that trust, additional constraints should be placed on that individual to insure adherence to the rules. This particular situation apparently was resolved by the returning of the items, however, since it involved an outside agency, this disclosure is required.

I further recommend the Commission review and establish what the maintenance supervisor's position is, and how it will be compensated. Any other salary position should likewise be reviewed to insure the proper payments are made. If the Commission wants to adopt compensatory time in lieu of overtime for hourly employees, a written policy should be drafted and the proper accounting of the time should be followed.

#### Reply

Disclosure of investigation of irregularities of Maintenance Supt. by an outside agency (Police Department) received. Situation has been resolved and written warning to the employee against further infractions and penalties resulting therefrom have been given to the employee and placed in his personnel file.

Issue of compensatory time and overtime compensation for all non-union salaried positions of the Housing Commission are being reviewed by legal counsel for compliance with the Fair Labor Standards Act and applicable State law (PA 154 of 1964). Upon completion of this review an appropriate Personnel Policy will be developed and adopted by the Commission governing the application of compensatory time and overtime compensation for this class of employees.